



Vendor Financing for Realtors/Builders

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"Helping Realtors Sell More Real Estate"

www.RichardsMortgageGroup.ca

Agenda

1. What is “Vendor Financing”?
2. Types of Deals (Legal/Contract Structures)
3. Target Buyers – Who are They?
4. Target Sellers – Who are They?
5. The Problem & Solution
6. How to Identify Potential Vendor Financing Deals
7. How does a Realtor get paid?
8. Mechanics of a Sample Deal
9. Working with www.RichardsMortgageGroup.ca
10. Next steps
11. Conclusion – let’s have a coffee

Vendor Financing Defined


- CMHC describes vendor financing as the seller or vendor (rather than a financial institution) financing a portion of a property purchase.
- An agreement is made between the two parties independent of and without the involvement of a financial institution.
- This can be very helpful when the buyer cannot otherwise qualify for a mortgage.

Types of Deals

- Agreement for Sale (AFS)
- Vendor Take Back (VTB) Mortgage
- Rent with an Option to Own (ROTO), also called Lease-Purchase, Rent-to-Own
- NOTE: These deals are “stepping stones to mortgages,” not replacements – buyer must be able to qualify for mortgage soon or this is a big disservice to both sides of the transaction



Target Buyers




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- There is a spectrum of buyers from bad to good as far as the bank is concerned.
 - Realtors typically target qualified (green for 'go') buyers for their sellers.
 - There are many motivated buyers in the almost-qualified (yellow) zone who may be short on down payment, not enough credit history, credit blemishes, employment probation, business-for-self, divorce pending, investors short on 20% DP, etc. Typically, they just need time.
 - Vendor financing targets this different segment

Target Sellers

If you have a seller that needs to sell quickly or is losing patience, they may be open to other options.
Typically you might find:

- Little or no equity
- Transferred
- Divorce
- Behind on payments
- Vacant
- Big mortgage payout penalty
- Lack of demand / Long DOM
- Buying another property but need to sell first
- Property condition is lacking (ugly houses)
- Can't afford to pay Realtor
- Free and Clears
- _____

Problems = Opportunities

Buyers that cannot qualify +
 Sellers that NEED to sell +
 Vendor Financing Knowledge =
Increased Realtor deals AND
 Satisfied Sellers
(you have solved a BIG problem)

Why Sellers Might Want to Know More...

- Markets to different segment of buyers.
- Buyers abound, as mortgage rules very tight
- Cash flow neutral or positive for seller
- Solves problem, breaks the grid-lock.
- Tax advantages for non owner-occupied.
- Sell at full list price/get the price seller needs.
- A good safe investment compared to other places to leave your money (60% of baby boomers free and clear – what else to do with money?!)

Identifying Potential Sellers

- Ask, Ask, Ask...
- You MUST know seller's equity position
- You should know seller's motivations
- Determine what seller is doing with sale proceeds – another transaction?
- Use the **Vendor Motivation Checklist** (ask us for a copy)

Language for Realtors to Use

- Keep things in very simple language
- Talk about outcomes, not mechanics
- Example key questions
 - “If I could show you a way to buy your next home before this one sells, would you be interested?”
 - “Do you need all your equity right now, or could you take some of it in monthly installments?”
 - “Would you consider a regular monthly cash flow with an interest rate much higher than the banks will give you until it sells?”

How Realtor Gets Paid

- Buyer/Tenant MUST have “skin in the game” as non-refundable deposit
- Different vendor financing structures require different down payments commensurate with risk
- Rent-to-Own usually requires a target 3-4% of purchase price up front from buyer/tenant – sometimes paid in installments. (AFS=10%, VTB=20%)
- Buyer deposits will go to Realtor or Lawyer trust until all conditions met and occupancy, at which point they become non-refundable and source of fee.
- Realtor has a listing agreement with Seller and is entitled to a fee for facilitating the transaction.
- As dual agent, *full commission available* to you yet be open and flexible to get a deal done.
- Mortgage broker earns 1% (min \$1500) fee *from Realtor* for facilitating transaction - paid from Realtor brokerage trust directly to mortgage brokerage as a referral fee per RECA/FISCO/FICOM.

Mechanics of a Sample Deal

- See attached at end (ask us if missing)
 - Vendor Economics
 - Rent-to-Own illustration/solution
 - Accumulation of Deposits

Working with Chris Richards & Team



- Partner with mortgage brokers who understand these deals, and have strong contracting and financial backgrounds. Experienced landlords, too.
- Provide necessary comfort to your seller that the buyer has been properly screened, that field tested agreements are used, and lawyers involved.
- Buyers want upfront advice and ongoing assistance in getting their own mortgage so they can conclude their purchase transaction, *else we don't do these deals!*
- We help Realtor identify financing terms that will work for both seller and buyer with the objective of a successful outcome for both sides.
- We have a continuous stream of tenant/buyers and need more properties.

Why it Works? We Create Deal Flow!

- You may advertise properties with Vendor Financing on our website – your job is to locate the sellers/properties.
- The more ads/properties, the more our website attracts target buyers, which we prescreen. You only have to deal with bona-fide leads, which we send your way.
- If the buyer can get a mortgage instead, we direct them back to you, and you've got a qualified buyer instead!
- We earn our fee only when we facilitate the actual transaction, otherwise no cost to you or your seller.
- www.RichardsMortgageGroup.ca is the meeting point for both your listings and prospective buyers.

Your Next Steps

- Determine a seller who *needs to sell* , then call us to walk you through the first one! Generally, you want to ...
- Determine their equity position and motivations best you can.
- Share his or her circumstances with us and we will help brainstorm solutions
- If the seller will entertain a proposal, involve us directly – all we need is a MLS# to get started.
- We can conference call in with your seller and attend meetings too, as required.

Conclusion

- Thanks for downloading this paper on vendor financing
- When the market is slow, even having enough of this concept in your brain when talking to sellers might win you that listing.
- If you like to get together over a coffee, we can explore this in more detail.

Contact Chris Richards @ 1.888.540.1715 ext2
RECA Licensed Mortgage Broker



A typical FSBO

Call for the rest of example

Example Vendor Economics

Fair Market Value	\$375,000	"FMV"
Mortgage Balance	370,000	2 years left on contract at 4.25%
Gross Equity	5,000	
Payout Penalty	(11,100)	assumed 1.5%% interest rate differential x 2 years = 3% penalty
Net Equity	(6,100)	Vendor would have to write a cheque at lawyer's office to sell.
Available for Realtor	-0-	Normally, a Realtor quickly moves on as no equity for fees. <i>Conversely, this is often the reason the seller tries the FSBO route in the first place.</i>
Vendor Cash Flow	Payment/Mo	
Mortgage	1,717	N=25 years, I%=4.25
Taxes	200	
Insurance	50	
	1,967	Vendor's current monthly property expenses (and they exceed market rent!)

Robby the Realtor Recognizes a ROTO Opportunity

If Vendor was to sell at FMV, he must write a big cheque to the bank. Pay up or stuck! **The Problem to Solve!**
 Total vendor monthly payments similar to but exceed a "rent" payment. Whether he rents it or sells, going to bleed\$
 Vendor very motivated to sell, per Realtor's questions. He has been transferred and is commuting 3 hours per day!

In consultation with the Chris the Mortgage Broker, he has found a prospective Tenant/Buyer ("TIB")

√ Tenant/Buyer cannot currently qualify for a mortgage because of un-finalized divorce and numerous credit issues to clean up courtesy of the breakup and missed payments.

√ Fully employed, making \$7,000 month, limited debts. Needs to finalize divorce and re-establish/fix credit score.

√ Has \$15,000 for down payment currently saved, and can easily save a further \$420/month

√ Stands a very good chance of getting a mortgage within a couple of years. *<<This is where the DIY train wrecks occur. TIB must be crystal clear on exactly why he can't get a mortgage today and why proper upfront screening is so important. Otherwise, the deal fails...*

The Deal

Option to Purchase @ 385,000 Tenant/Buyer gets option to purchase the property at this price, end of 2 years
 This in a non-refundable option fee, that will be credited as down payment (DP)

OPTION TO PURCHASE

Agreement made this _____ day of _____, 20____, by and between

_____, hereinafter Optionor (Landlord)

and _____ hereinafter Optionee (Tenant)

Whereas, Landlord offers to Tenant an option to purchase real property with improvements thereon and Tenant desires to have the option to purchase said property, the parties, in consideration of their mutual promises contained herein, agree as follows:

1. **Property Subject to Option.** The real property controlled by Landlord, which is the subject of this Agreement is municipally described as _____ hereinafter referred to as the Property. The legal description is _____.

No Unattached Goods (chattels) except for:

Stove, refrigerator, dishwasher, washer, dryer, window coverings
and light fixtures

All Attached Goods (fixtures) except for:

Example

2. **Term and Exercise of Option.** This Agreement shall provide Tenant with the right, but not the obligation, to purchase the Property (the "Option") for the period of time and the purchase price herein specified. Until the Option has been validly exercised, the Tenant has no equitable interest in the Property and is a Tenant only. To exercise the Option, Tenant must deliver written notice to the Landlord in person, or by registered or certified mail, thirty (30) days prior to the expiration of the Option; otherwise the Option shall expire worthless.

The Option expires at 17:00 hours local time on [DATE]. The earliest date Tenant can exercise the Option is *(choose one, stroke the others)*

- the date of this Agreement.
- [DATE]
- thirty (30) days prior to the expiration of this Option.

Note, however. If there is a **substantial breach** (as set out in the *Residential Tenancies Act*) by the Tenant of a tenancy between Landlord and Tenant concerning the Property, such a breach shall constitute immediate default under this Option and void all rights of Tenant hereunder. For greater clarity, Tenant shall immediately forfeit all consideration.

Option Price. Tenant shall have the right to purchase the Property for \$ [AMT NUMBER and WRITTEN AMT].

Option Consideration. In consideration for this Option, Tenant agrees to pay Landlord \$ [AMT] as follows: \$[AMT] INITIAL DEPOSIT ON SIGNING THIS AGREEMENT. \$[AMT]

PAYMENT SCHEDULE FOR

Realtor Example						Purchase Price »	\$ 288,500	
Month		Total Payment (\$)*	Allocation: to Rent	to DP credits	Total DP credits	% PP	Balance Owing	
On signing>		\$ 8,000		8,000	\$ 8,000	2.8%	280,500	
01-Jan-12	1	2,300	1,400	900	8,900	3.1%	279,600	
01-Feb-12	2	2,300	1,400	900	9,800	3.4%	278,700	
01-Mar-12	3	2,300	1,400	900	10,700	3.7%	277,800	
01-Apr-12	4	2,300	1,400	900	11,600	4.0%	276,900	
01-May-12	5	2,300	1,400	900	12,500	4.3%	276,000	
01-Jun-12	6	2,300	1,400	900	13,400	4.6%	275,100	
01-Jul-12	7	2,300	1,400	900	14,300	5.0%	274,200	
01-Aug-12	8	2,300	1,400	900	15,200	5.3%	273,300	
01-Sep-12	9	2,300	1,400	900	16,100	5.6%	272,400	
01-Oct-12	10	2,300	1,400	900	17,000	5.9%	271,500	
01-Nov-12	11	2,300	1,400	900	17,900	6.2%	270,600	
01-Dec-12	12	2,300	1,400	900	18,800	6.5%	269,700	
31-Dec-12		-end of lease, option expires-						
Totals (\$)		\$ 35,600	\$ 16,800	18,800				